

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

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TO SECSTATE WASHDC 3608

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TAGS ECON, EFIN, EAID, CE

SUBJ: GSL FREDB DOMESTIC RICE MARKET

REF: A) COLOMBO 2961 B) COLOMBO 3188 C) COLOMBO 3202

1. GSL REMOVED ALL RESTRICTIONS ON POSSESSION, SALE AND TRANSPORT OF PADDY AND RICE AS OF OCTOBER 8. WE HAVE CONFIRMED PRESS REPORTS THAT FINANCE MINISTER FELIX DIAS BANDARANAIKE INITIATED ACTION TO REMOVE ALL PHYSICAL BARRIERS AND PENALTIES FOR TRANSPORT AND SALES OF PADDY/RICE NOT PURCHASED BY PADDY MARKETING BOARD (PMB) FOR DISTRIBUTION THROUGH OFFICIAL RATION SYSTEM BY FOOD COMMISSIONER (FC). CONTROLS WERE IMPOSED IN FEBRUARY 1974 TO FORCE FARMERS TO SELL PADDY TO PADDY MARKETING BOARD. PHYSICAL RESTRICTIONS WERE COUPLED WITH ADDED INCENTIVE OF SEVERAL RISES IN GUARANTEED OFFICIAL PRICE FOR PADDY BUT "BLACK MARKET" REMAINED COMPETITIVE AND MORE EFFICIENT. PMB PROCUREMENT HAS STEADILY DECLINED LAST TWO YEARS.

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2. WEEKLY OFFICIAL RICE RATION OF ONE

POUND RICE FREE PLUS ONE POUND AT
SUBSIDIZED PRICE RS.1.10 REMAINS UNCHANGED. SINCE
OCTOBER 8, PRESS REPORTS COLOMBO OPEN
MARKET RICE PRICE DROPPING AS MUCH AS
TWENTY-FIVE PERCENT ACCOMPANIED BY
SIGNIFICANT REDUCTIONS ELSEWHERE IN
COUNTRY, ESPECIALLY IN RICE DEFICIT AREAS
SUCH AS POLITICALLY SENSITIVE JAFFNA AREA
IN ORTH. SHORT-TERM PRICE DROP MAY
REFLECT RELIEF OF LOCAL SHORTAGES AND
REGIONAL PRICE DISTORTIONS. LONGER TERM
EFFECTS WILL DEPEND ON DOMESTIC PRODUCTION
OF RICE AND SUBSIDIARY CROPS AND GSL
IMPORTS OF RICE AND FLOUR. HOWEVER, ACTION
REPRESENTS SIGNIFICANT POLICY SHIFT TOWARD
ALLOWING MARKET FORCES AND INCENTIVES TO
WORK IN KEY FOOD PRODUCTION SECTOR.

3. PRESS TREATMENT HAS BEEN LOW KEY.
CEYLON DAILY NEWS EDITORIAL SAID THAT RICE
MARKET DECISION REPRESENTED NEW "PHENOMENON
OF BEING INFLUENCED BY REALITIES AND NOT
BEING CRABBED BY DOCTRINAIRE REASONING."
WEEKLY JOURNAL "TRIBUNE" POINTED OUT ITS
LONG OPPOSITION TO CONTROLS AND EXPRESSED
HOPE GSL WILL INCREASE INCENTIVES TO
FARMERS "TO PLUNGE HEADLONG INTO
PRODUCTION."

4. SHORT-TERM PERVERSE RESULT OF FREEING
DOMESTIC RICE MARKET IS THAT GSL MAY BE
FORCED TO IMPORT MORE RICE. ACCORDING FOOD
COMMISSIONER (FC) DECISION WILL MEAN THAT
PMB'S ALREADY SIGNIFICANTLY REDUCED
PROCUREMENT DURING PRESENT YALA HARVEST
WILL BE EVEN LESS. THIS CAN LARGELY BE
ATTRIBUTED TO EASE OF PADDY SALES TO PRIVATE
MARKET CONTRASTED WITH DELAY AND RED TAPE
IN DEALING WITH PMB. IN ADDITION, DOMESTIC
FREE MARKET PADDY PRICE WILL PROBABLY
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REMAIN ABOVE GSL GUARANTEED PRICE,*;4 .33
PER BUSHEL. BASIC NATIONAL GRAIN SHORTAGE,
LARGELY DUE TO CONTINUING DROUGHT, REMAINS
PRIME FACTOR IN SRI LANKA'S NEAR-TERM FOOD
OUTLOOK. TO COVER RATION FC IS THEREFORE
NOW NEGOTIATING FOR UP TO 40,000 TONS RICE,
PROBABLY FROM PAKISTAN, FOR NOVEMBER/
DECEMBER DELIVERY. PRC WILL ALSO MAKE

ADVANCE RICE SHIPMENTS AGAINST 1976 RICE-
RUBBER BARTER AGREEMENT.

5. COMMENT: AS INDICATED IN RECENT
CONVERSATIONS WITH SENIOR GSL FINANCIAL
OFFICIALS (SEE REF B) AND IN PROMPT RESPONSE
TO OPEC CRUDE OIL PRICE RISE (REF C), GSL
ACTION ON RICE SHOWS DEFINITE TREND TOWARD MORE
PRAGMATIC, PRODUCTIVITY ORIENTED, ECONOMIC POLICY.
ACTIONS MAY ALSO REFLECT CLOSE GSL
CONSULTATIONS WITH IMF TEAM WHICH WERE
COMPLETED OCTOBER 7.
VAN HOLLEN

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